Truist Advisory Services, Inc.

Economic data tracker – Inflation cooled but is it enough?

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Week 19 – May 12, 2023

Trend watch and what's new this week

The continued strength of air travel defies high prices, sour sentiment generally, and weak trends elsewhere. Weekly air passengers surged to 16.5 million, the highest weekly sum since 2019 and stretching the number of weeks above 16 million to nine, the longest span since the summer of 2019. Passenger traffic continues to track very closely with 2019 (slide 6), with the year-to-date total passengers running 0.1% above four years ago.

As we mentioned last week, the test will come as May progresses, when weekly counts should be climbing above 17 million around Memorial Day on their way to consistently topping 18 million during June and July.

The rest of the activity-based data (slides 5 and 6) mostly improved in recent weeks as well. Container traffic in April surged 11.1% at the Port of Savannah, which is the third largest in the U.S., snapping a 5-month decline streak. The staffing index has also firmed. Yet, hotel occupancy and rail traffic dipped modestly in the most recent week.

Consumer inflation cooling but not enough

On slide 7, the Consumer Price Index (CPI) rose 0.4% in April. The year-over-year pace cooled to 4.9%, which was the ninth consecutive decline. On slide 8, core CPI, which excludes food & energy, rose 0.4% month over month, while the year-over-year pace ebbed to 5.5%.

On slide 9, we provide some possible inflation scenarios. While there are a wide range of potential outcomes, we expect CPI to trend toward 3% to 4% by this time next year. That would be considerably lower than the peak last June, but still above pre-pandemic levels. Of course, a recession would accelerate the cooling of prices.

Wholesale prices up in April, but have clearly peaked

On slide 10, wholesale prices, as measured by the Producer Price Index (PPI), rose 0.2% in April. The year-over-year pace cooled to 2.3%, dramatically lower than 11.7% in March '22. Core PPI, which excludes food & energy, also rose 0.2% month over month, while the annual change continued to slide, up 3.2% from a year ago.

Private rental data shows prices plateaued

On slide 11, we show rents from private rental sources for new leases. Rents spiked during 2021, which continued into 2022, growing 0.9% per month on average through September. Since then, rents have cooled considerably and appear to have plateaued. Rental prices, which are seasonally stronger in the spring months, rose 0.6% month-over-month in April. While that's the fastest pace in eight months, it's less than half of last April's rate and is below the pre-pandemic 5-year average of 0.7% for April. This has positive implications for inflation to continue cooling since there's a lag between private rental data and CPI.

Economic commentary – Our take and the bottom line

Bank credit tightened further in 1Q23, but demand plunged

On slide 12, we highlight the Federal Reserve's (Fed) Senior Loan Officer Survey, which indicates that banks are tightening lending standards for commercial and industrial loans to large firms. Banks tend to tighten lending standards when there are concerns about the broader economy, expecting that more borrowers will have difficulty repaying loans and credit. While the widely-held belief is that lending standards tightened after the banking stress that occurred in the first quarter '23, banks began dramatically ratcheting up lending standards when the Federal Reserve started hiking rates in March '22.

On slide 13, we show that banks have increased loan interest rates by more than simply prevailing rates, which is known as spread over funding costs, during both the fourth quarter '22 and first quarter '23. More importantly, demand for commercial & industrial loans collapsed in the first quarter, weaker than during the pandemic recession and approaching the weakest demand since the Great Financial Crisis.

Debt ceiling, recession woes weigh on consumer confidence

On slide 14, the University of Michigan Monthly Consumer Sentiment Survey slumped to a reading of 57.7 in May, giving back the jump to 63.5 in April. However, one-year inflation expectations ticked downward to 4.5% as gasoline prices moderate. While longer-term expectations appear well-anchored, the 5–10-year inflation expectations skipped up to 3.2% in May, the highest since 2011.

Our take

Inflation remains a headwind for the economy, which has hamstrung the Fed's ability to change monetary policy. While the April data shows that it has clearly peaked, elevated inflation remains public enemy number one and will continue to dictate the Fed's future actions.

Yet, while we continue to hear others opine that "the Fed is definitely done hiking rates," the Fed's next move is far from obvious. We too believe last week's rate hike likely was the end of the Fed's hiking cycle; however, we can't completely rule out a June hike if inflation doesn't continue cooling.

This is especially true given the continued strength in the labor market. Although monthly job growth has stepped down compared to very strong results in 2021 and 2022, the U.S. has averaged 277,800 new job openings for the past six months (slide 15). That's over 100,000 per month more than the pre-pandemic 3-year average of 177,000. Furthermore, the unemployment rate dipped to 3.4% in April and matched the cycle low. Indeed, these are backward-looking indicators. Still, the forward-looking indicators, such as weekly jobless claims, are weakening but not weak.

Therefore, we reiterate our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. Furthermore, we believe the market's expectations for rate cuts this summer are misplaced. Rate cuts are plausible in the coming year, particularly in the event of a sharper recession, but not that soon.

Lastly, we maintain our view that the coming economic slowdown will be relatively mild compared to the Great Financial Crisis and Pandemic recessions. Accordingly, we anticipate a continued gradual weakening of the economy rather than a sudden downshift.

Bottom line

A recession remains our base case as dramatically higher interest rates and now tighter credit conditions place additional stress on consumers and businesses going forward. We also believe that the Fed will keep interest rates higher for longer.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	1Q P: 1.1%	1Q A: 1.1%	Came in at roughly half of 2.0% consensus. Consumer spending accelerated to its fastest pace in 7 quarters, but business inventories sliced off an outsized 2.3 percentage points from 1Q 23 growth.
Jobs	Unemployment rate[x]	▲	Apr: 3.4%	May: 3.4%	Revisited the cycle low, which is also the lowest level since May '69.
	Monthly jobs (nonfarm)	▲	Apr: 253K	May: N/A	Averaging 277,800 for the past six months. That's over 100,000 per month more than the pre-pandemic 3-year average of 177,000.
	Weekly jobless claims[+]	⇆	5/6: 264K	5/13: 250K	Jumped 15.3% in past two weeks, and up 45% from Sept-22 low.
	Nonfarm productivity	⇆	1Q P: -2.7%	1Q F: -2.7%	Weaker than expected. Fourth quarter was revised downward to 1.6% from 1.7%. Also, unit labor costs jumped 6.3% from 3.3%.
Interest rates	Federal funds rate	▼	5.00% – 5.25%	6/14: 5.00% – 5.25%	As expected, the Fed raised rates 0.25% at the May meeting to help fight inflation. Market expects the Fed to pause the rate hikes.
	10-year U.S. Treasury yield	▼	3.44%‡	Flat/up	Bouncing around with incoming inflation data, Fed rate hike chances, and debate the debt ceiling issue. We expect more volatility.
	10-year AAA GO muni yield	▼	2.31%‡	Flat//down	Remarkably placid WoW but down considerably from last year.
	30-year fixed mortgage rate	▼	6.84%‡	Flat	Bumped higher WoW. Still, mortgage rates remain near their highest level since '01, which hurts affordability.
Inflation	Consumer prices (CPI)[x]	▼	Apr: 0.4%	May: N/A	The YoY pace cooled to 4.9%. Food was unchanged MoM for a second straight month, but energy rose 0.6% MoM.
	Core CPI	▼	Apr: 0.4%	May: N/A	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	⇆	Apr: 0.2%	May: N/A	Wholesale food prices down for 4th time in 5 months. YoY rose 2.3%.
	Core PPI	⇆	Apr: 0.2%	May: N/A	YoY cooled 3.2%. Services prices ticked higher in April.

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [x]Lagging indicator ‡Intraday quote Bloomberg consensus shown

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Mar: 4.44M	Apr: 4.30M	Fell 2.4% MoM, single family down 14 of the past 16 months.
	New home sales	⇆	Mar: 683K	Apr: 675K	Jumped 9.6% MoM, up for a third time in 4 months, while prices rose.
	New housing starts	▼	Mar: 1.420M	Apr: 1.400M	Down 0.8% MoM as multifamily dropped 6.7% during March.
	New permits+	▼	Mar: 1.430M	Apr: 1.428M	Fell 7.7% MoM with multifamily -24.3% but single family up 4.1%.
Business	Durable goods orders+	▲	Mar F: 3.2%	Apr P: -1.0%	Commercial aircraft orders spiked 78%, but core capital goods orders (ex-air & defense) have declined in 5 of the past 7 months.
	ISM Manufacturing Index	▼	Apr: 47.1	May: N/A	Ticked up MoM but activity contracted for the sixth month in a row. Prices paid component rose to its highest reading since July '22.
	ISM Services Index	▲	Apr: 51.9	May: N/A	Expanded for a fourth straight month after contracting in December. Prices paid component edged up but fell in 10 of the prior 12 months.
	Business inventoriesX	▲	Feb: 0.2%	Mar: 0.0%	Rose modestly, but January was revised downward to -0.2%.
Consumer	Personal income	▲	Mar: 0.3%	Apr: 0.3%	Continued wage growth, though the pace ratcheted downward.
	Personal spending	▲	Mar: 0.0%	Apr: 0.4%	Better than expected, but February was revised downward to -0.2%.
	Advance retail sales	▼	Mar: -0.6%	Apr: 0.8%	Fell for the fourth time in five months, but still near all-time high.
	Consumer sentiment	▼	May P:57.7	May F:57.7	Debt ceiling and recession woes pushed it down to 6-month low. One-year inflation expectations pulled back.

▲Good ▼ Bad ⇆ Neutral +Leading indicator XLagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

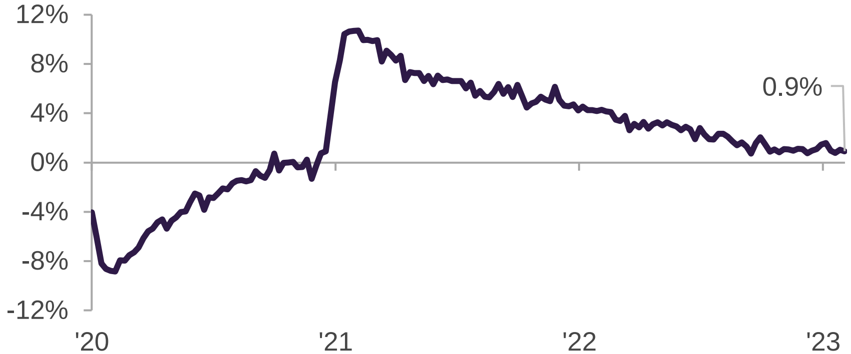
Indicator	Relative trend	What we're watching
Back to office	⇆	Inched closer to 50 at 49.9, which was an 8-week high (pre-pandemic indexed to 100). Top cities were Austin (63), Houston (62), and Dallas (54); bottom were San Jose (39) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 1.7% WoW to 16.0 million, which was 2.6% from the 2019 average of 16.1M. Passenger counts were 0.4% from the same week in May '19 and 11.6% above May '22.
OpenTable restaurant bookings	▲	Fell to -11.7% for the week of May 8th compared to 2022 levels. Top positive states were led by Rhode Island (+9%) and Kansas (+3%); bottom were Ohio (-17%), Alabama and New Mexico (both -16%). Top cities were New Orleans (+2%) and Las Angeles (+0%); bottom were Portland and Raleigh (both -20%).
Hotel occupancy	▲	Dipped to 65.2%, which is a 3-week low. The average daily rate rose WoW to $157.62, up 6.4% from the same week in last year, and revenue per available room fell WoW to $102.74, up 8.4% from April '22.
Freight (rail/truck/ship)	⇆	Rail carloads fell 2.2% last week but jumped 5.0% MoM in April to a six-month high. Container traffic in April surged 11.1% at the port of Savannah (#3 in U.S.), snapping a 5-month decline streak. The Cass Freight Index slumped 1.0% MoM in March; it's been down 6 of the past 7 months.
Staffing index	▼	Rose for the third consecutive week, to 98.5, which was a five-week high. Still, it's -7.0% compared to last year. The pre-pandemic all-time high was 105.8 set in Dec. '14. The cycle low was 59.6 set in April '20.
Apartment rental prices	⇆	Rent index rose 0.5% in March, the second monthly increase after a four-month slide (from October to January). The rental growth rate clearly peaked during the second half of 2021.

Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

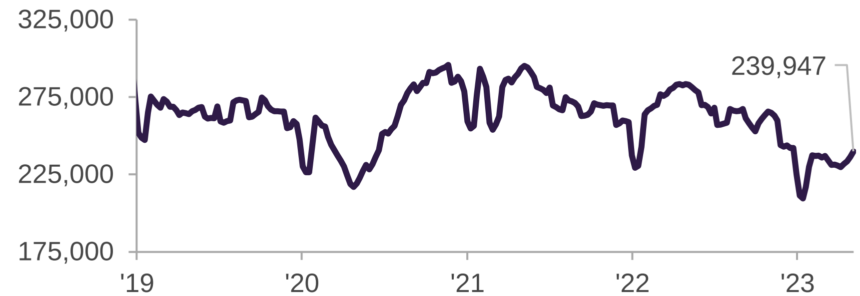
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slipped to start 2023, but firming through early May

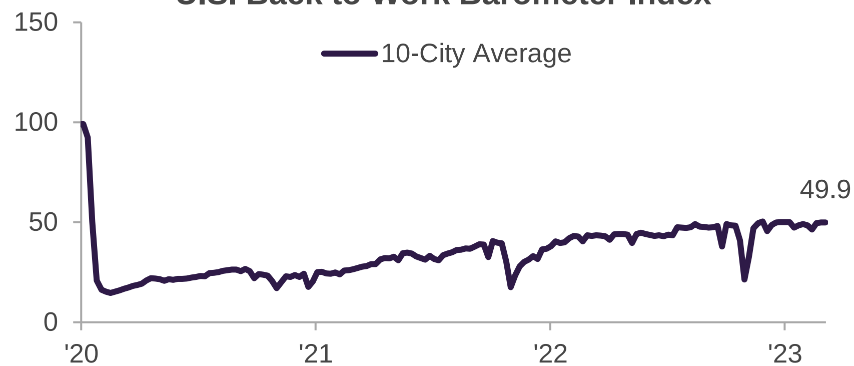
NY Fed weekly economic index



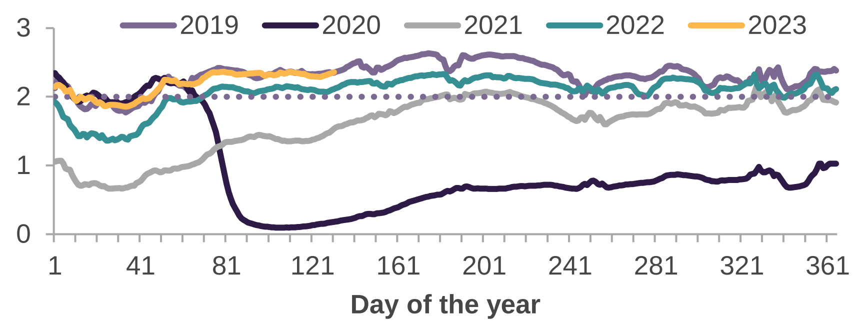
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



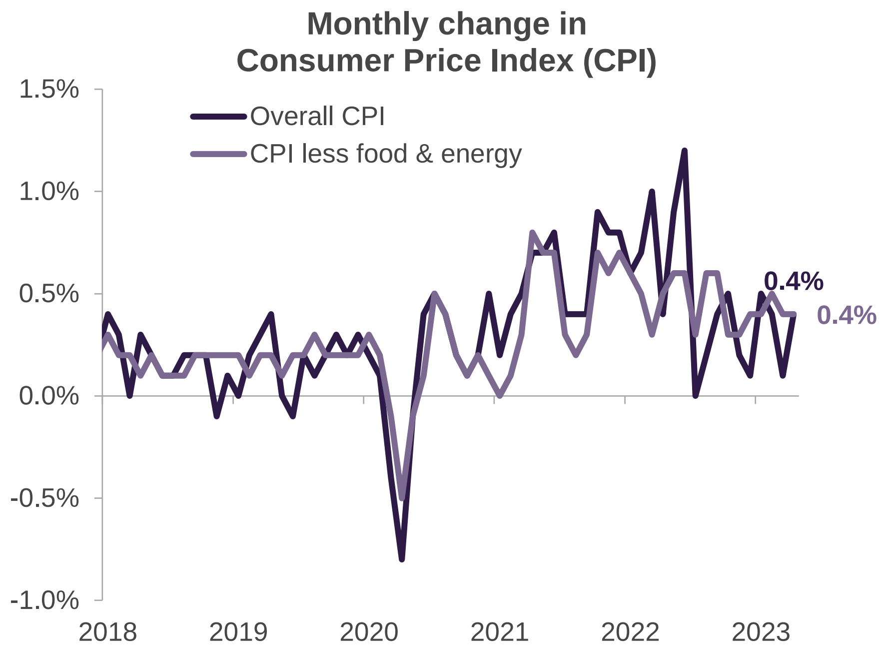
TSA checkpoint traveler throughput (7-day average, in millions)

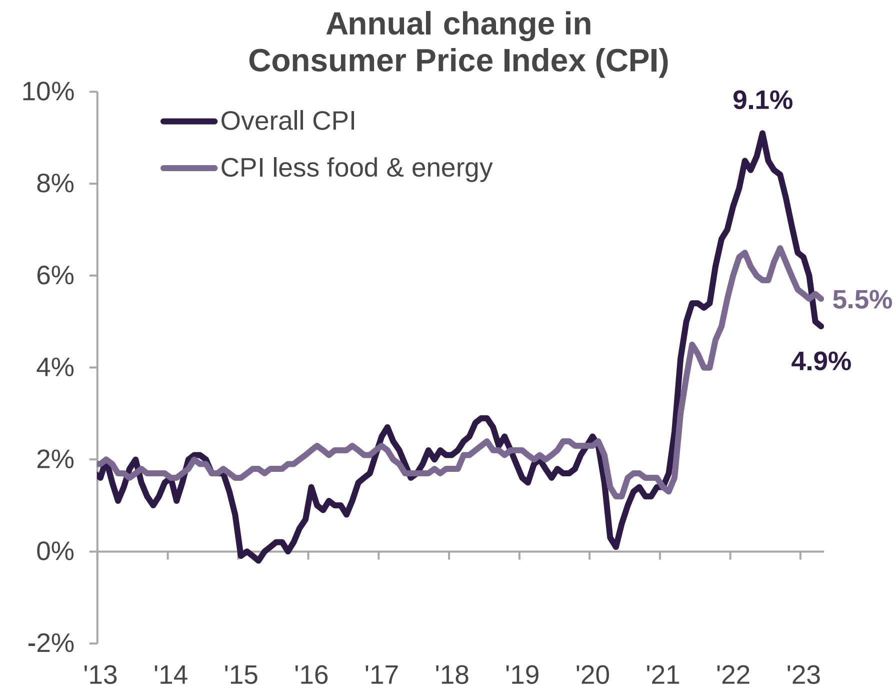


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 29, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through May 5. Bottom left: Bloomberg, Kastle Systems averaged weekly through May 3. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 11.

Consumer prices still cooling but pace of core prices remained firm in April

The Consumer Price Index (CPI) rose 0.4% in April. The year-over-year pace cooled to 4.9%, which was the ninth consecutive decline. Core CPI, which excludes food & energy, rose 0.4% month over month, while the year-over-year pace ebbed to 5.5%.



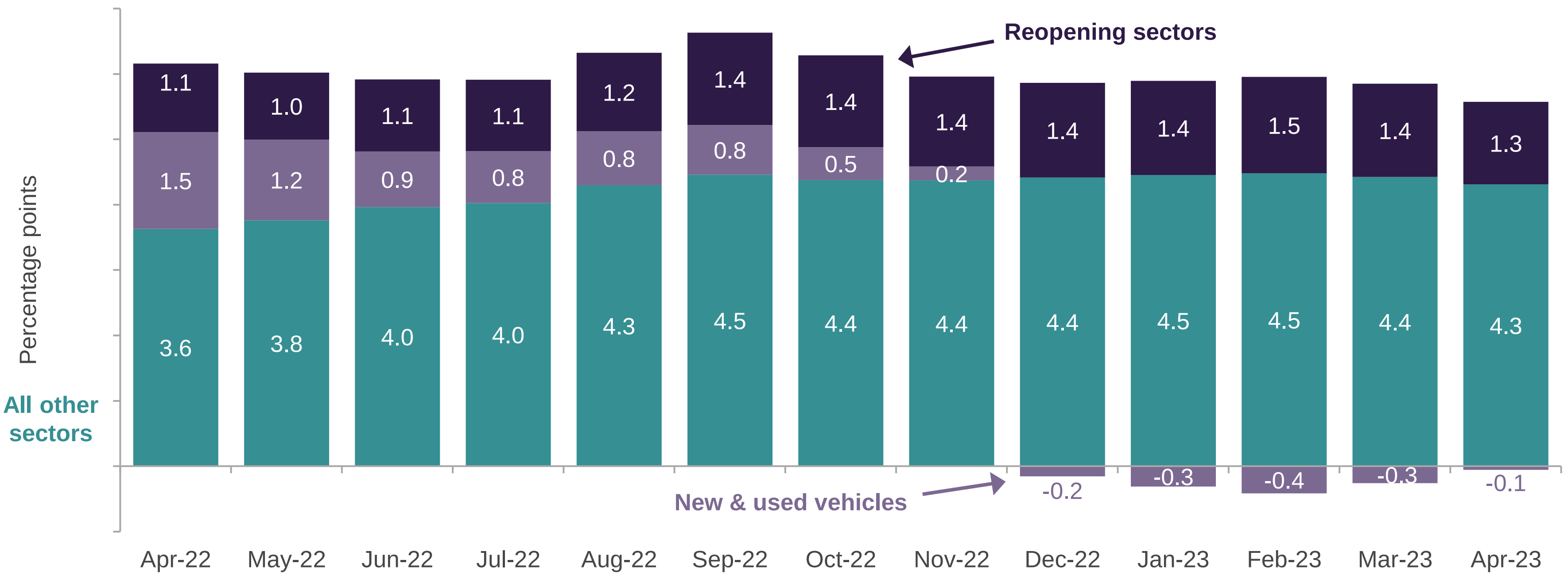


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2023.

Core inflation is sticky, but vehicle prices remain a drag

The core Consumer Price Index, which excludes food & energy, rose 0.4% month over month and increased 5.5% from a year ago, down from 6.6% in September '22. Among the biggest decliners were used vehicles, which fell 0.9%, down for the ninth straight month. Prices for services rose 0.3%, the smallest increase in 18 months.

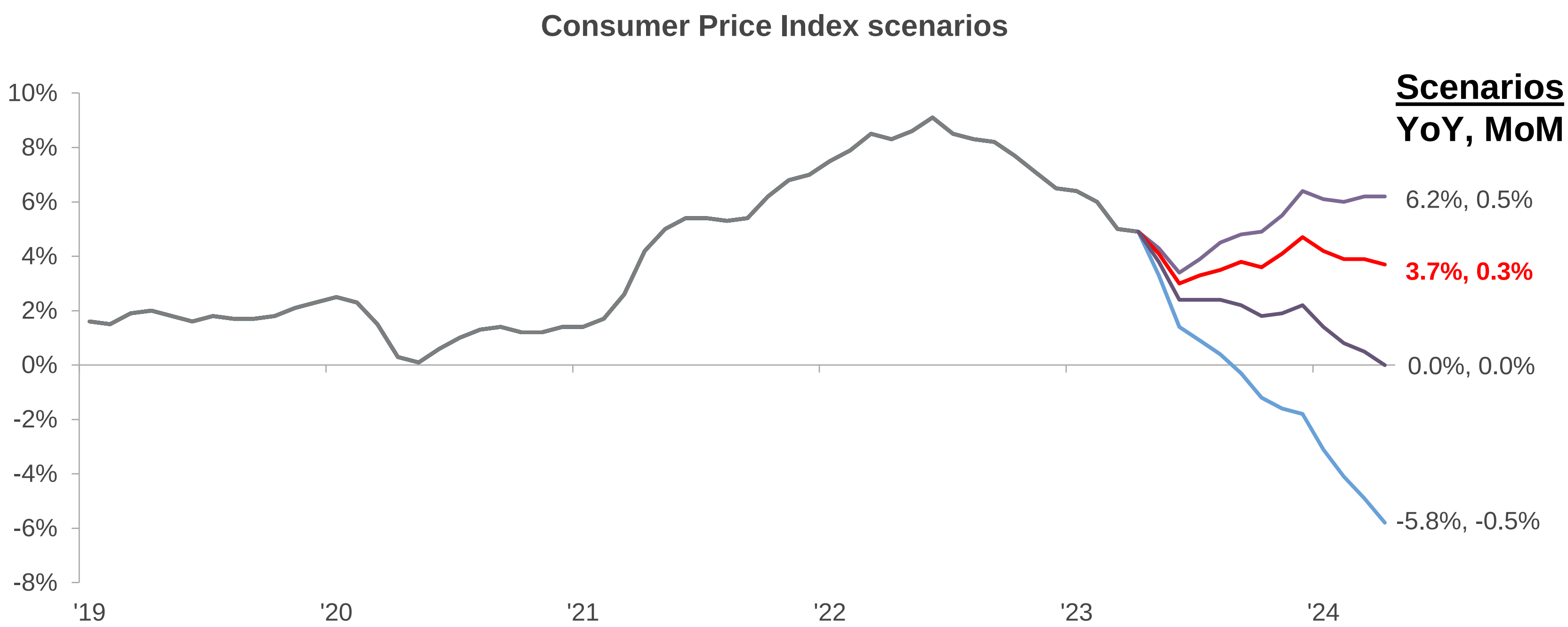
Contributors to core Consumer Price Index (year-over-year change)



Data source: Truist IAG, Haver, Bureau of Labor Statistics; monthly data through April 2023. Core consumer price index excludes food and energy. Vehicles includes new vehicles, used cars and trucks. Reopening sectors includes transportation services, recreation services, recreation commodities, and apparel. All other components, includes shelter and medical care. Total may vary due to rounding.

Consumer inflation scenarios – Wide range of outcomes but we expect it to trend toward 3% to 4%

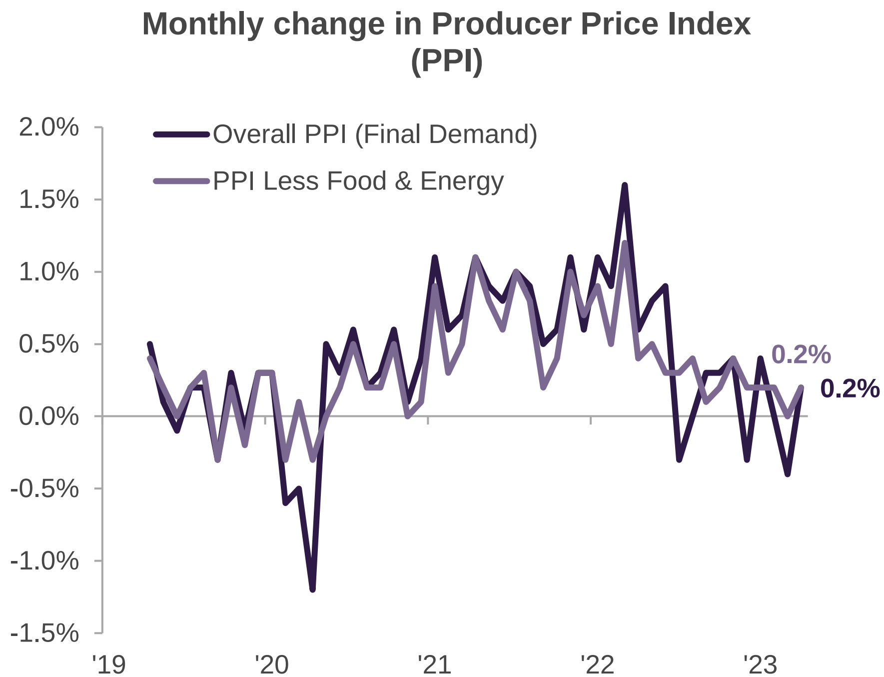
The year-over-year (YoY) pace of Consumer Price Index (CPI) slipped to 4.9% in April, down from the peak of 9.1% in June ’22. The month-over-month (MoM) pace rose 0.4%. Below are several scenarios of how it might unfold over the coming year. For instance, if the pace of CPI was unchanged (0%) MoM for the coming year, it would equate to a 0.0% YoY rate. Or, if the MoM pace grew at 0.5% per month, it would be at 6.2% YoY. We expect 0.275% per month during 2023 and early 2024, which would be 3.7% a year from now.

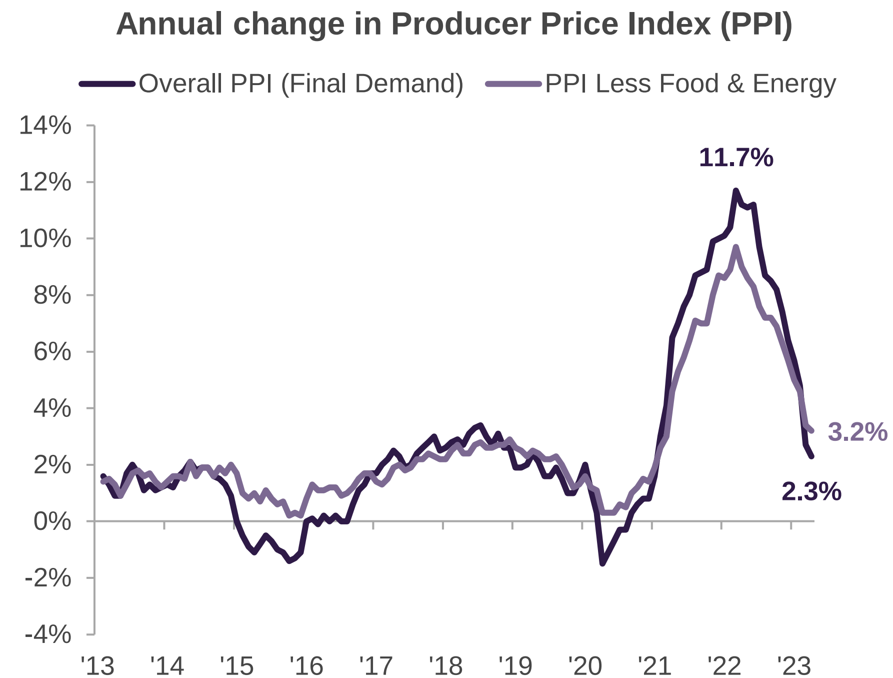


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; actual monthly data through April 2023; calculated scenarios and Truist IAG forecast (0.275%) through April 2024.

Wholesale prices up in April, but have clearly peaked

The monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), rose 0.2% in April. The year-over-year pace cooled to 2.3%, dramatically lower than 11.7% in March ’22. Core PPI, which excludes food & energy, also rose 0.2% month over month, while the annual change continued to slide, up 3.2% from a year ago.



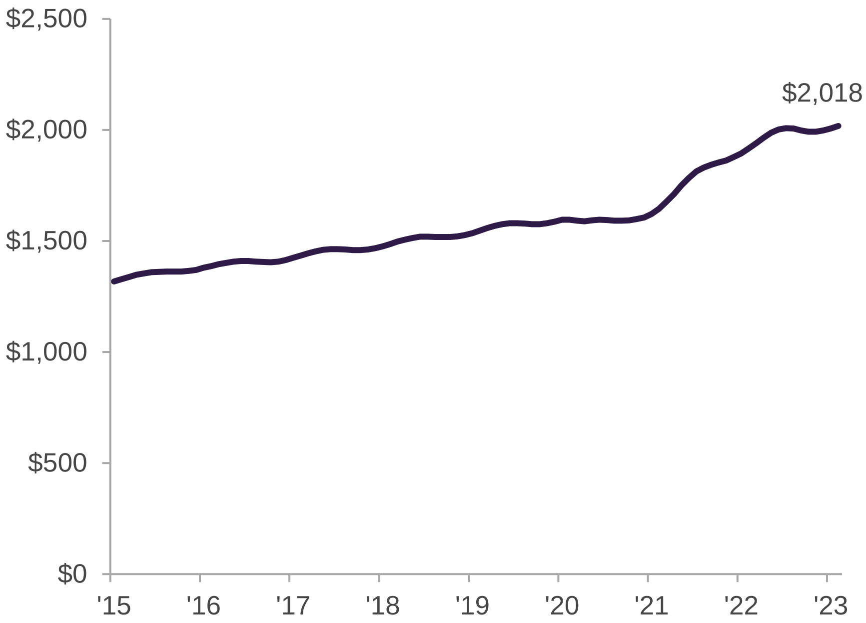


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2023.

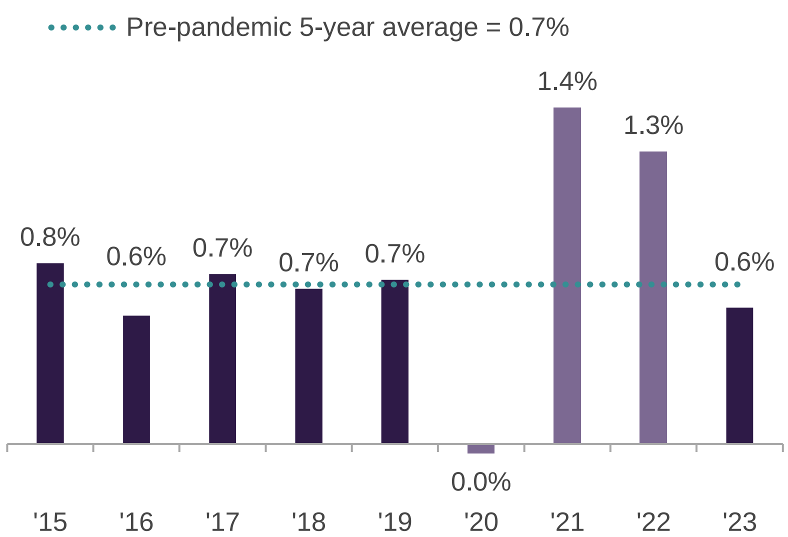
Rental prices have stabilized, April increase appears back in-line

Rents spiked during 2021, including a jump of 2.2% during July ’21. That continued in 2022, growing 0.9% per month on average through September ’22, but rents have cooled considerably since then. Rental prices in April rose 0.6% month over month, which is below the pre-pandemic 5-year average of 0.7% for April.

Rent index



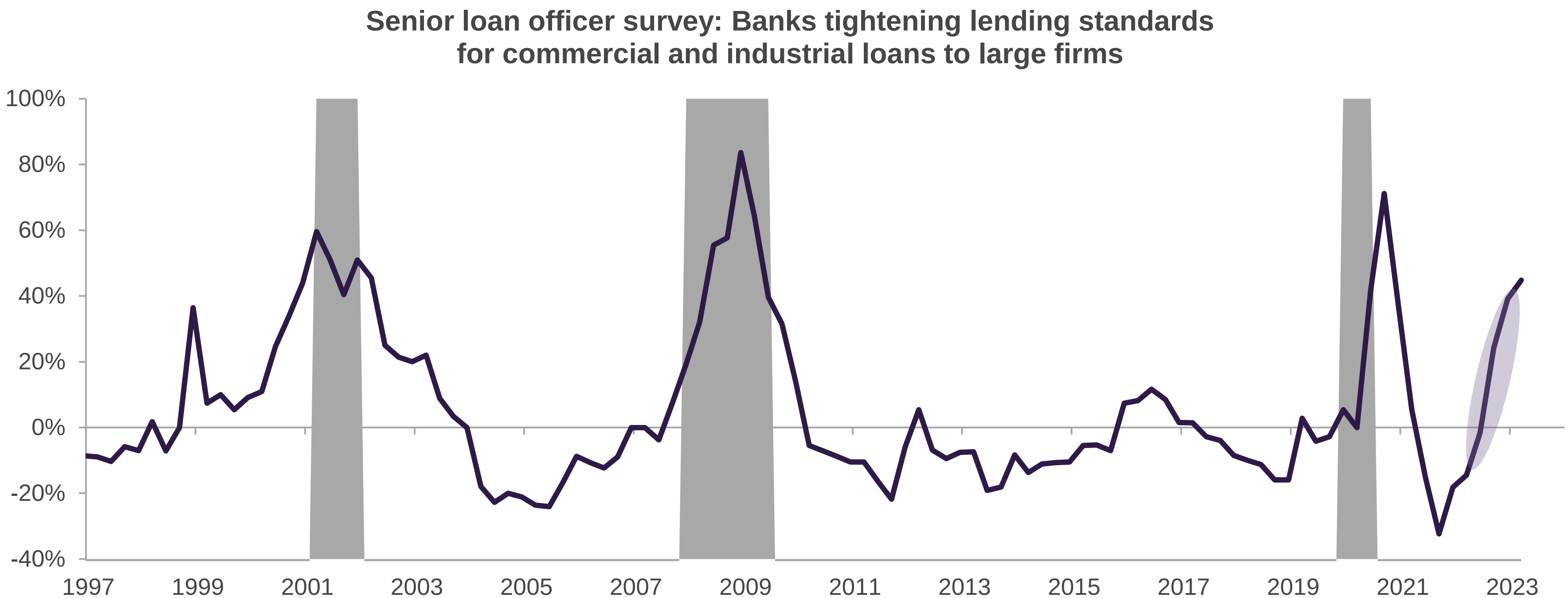
April rent increase by year (month-over-month change)



Source: Truist IAG, Bloomberg, Zillow; monthly data through April 2023.

Bank lending standards were already tight before recent bank stress

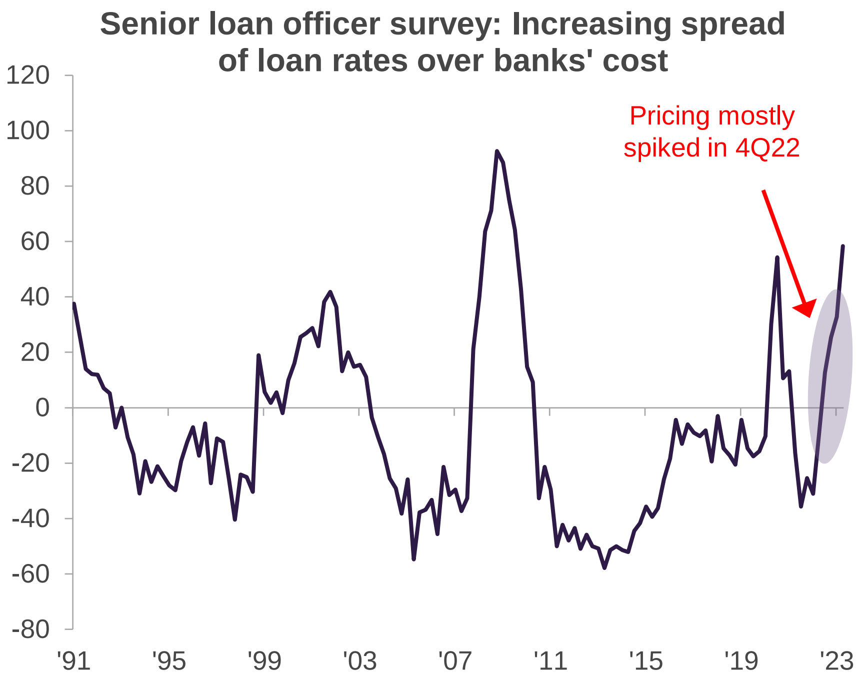
Banks tend to tighten lending standards when there are concerns about the broader economy, expecting that more borrowers will have difficulty repaying loans and credit. While the widely-held belief is that lending standards tightened after the banking stress that occurred in the first quarter ’23, banks began dramatically ratcheting up lending standards when the Federal Reserve started hiking rates in March ‘22.

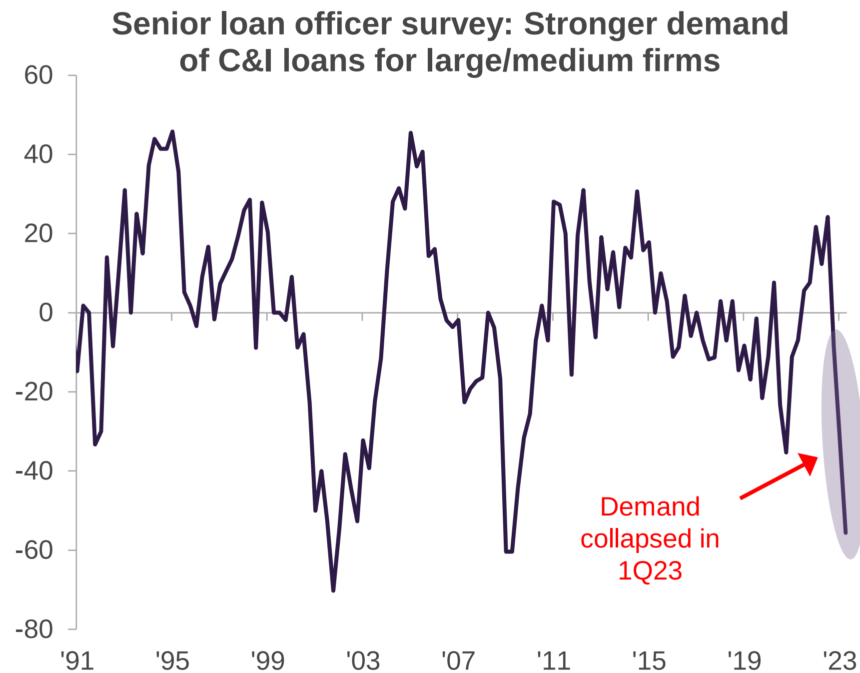


Source: Truist IAG, Haver, Federal Reserve Board. Quarterly data through 1Q2023. Gray bars = recession.

Loan pricing spiked in past 6 months, while demand collapsed in 1Q23

Banks have increased loan interest rates by more than simply prevailing rates, which is known as spread over funding costs, during both the fourth quarter '22 and first quarter '23. More importantly, demand for commercial & industrial loans collapsed in the first quarter, weaker than during the pandemic recession and approaching the weakest demand since the Great Financial Crisis.

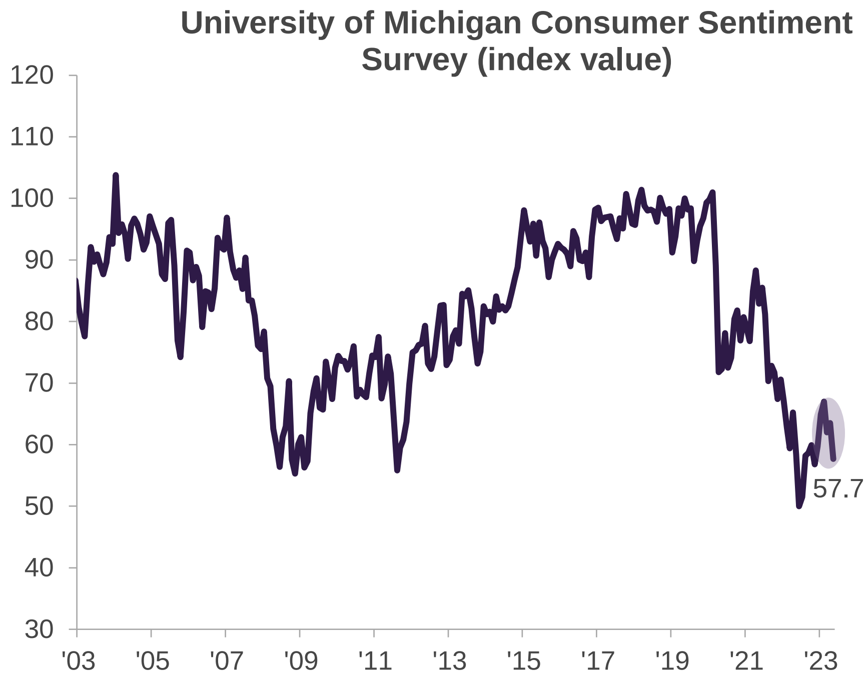


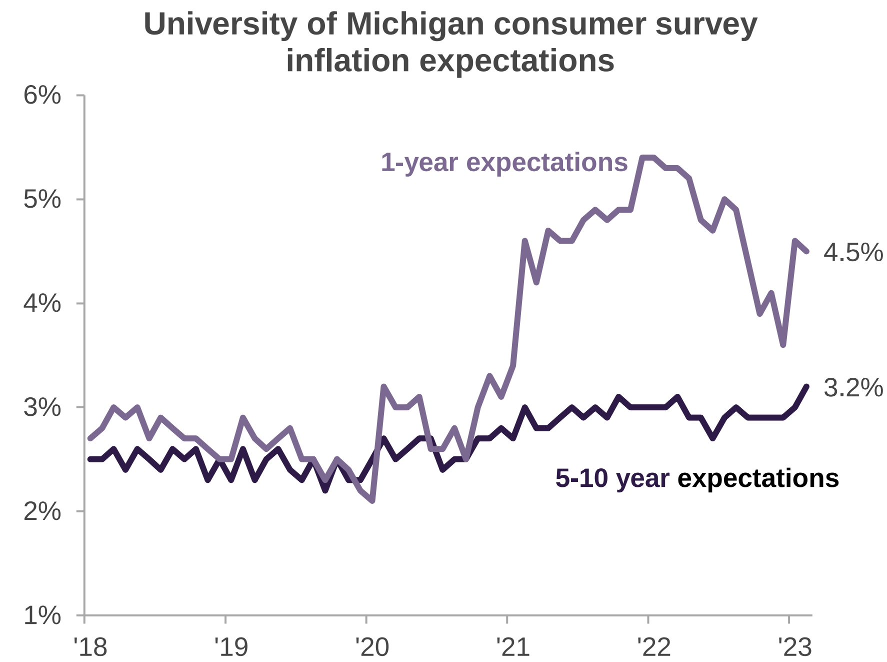


Source: Truist IAG, Bloomberg, Federal Reserve Board. Quarterly data through 1Q2023.

Debt ceiling and recession woes weigh on consumer confidence

The University of Michigan Monthly Consumer Sentiment Survey slumped to a reading of 57.7 in May, giving back the jump to 63.5 in April. However, one-year inflation expectations ticked downward to 4.5% as gasoline prices moderate. While longer-term expectations appear well-anchored, the 5–10-year inflation expectations skipped up to 3.2% in May, the highest since 2011.





Sources: Truist IAG, Bloomberg, University of Michigan; preliminary monthly data through May 2023.

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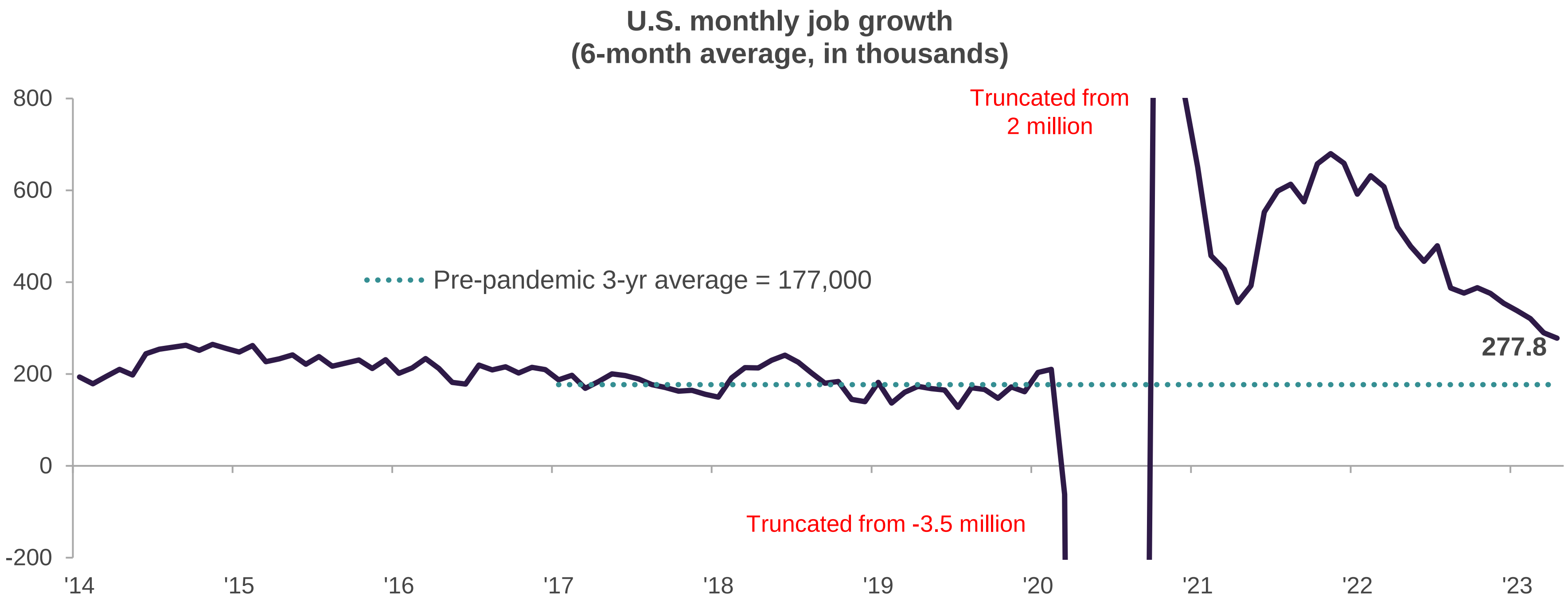
U.S. adding 100K more jobs per month than pre-pandemic 3-year average

While job growth has declined compared to very strong 2021 and 2022 results, the U.S. has averaged 277,800 new job openings for the past six months. That's over 100,000 per month more than the pre-pandemic 3-year average of 177,000.



Source: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through April 2023

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